



**CITY COUNCIL AGENDA
CITY COUNCIL WORKSHOP**

Monday, June 8, 2020 6:30 P.M.

*** *In every effort to protect the residents and staff of the City of Montrose during the time of the COVID-19 Pandemic, the City Council will be holding an in-person Workshop and are encouraging anyone who would like to participate to join the Workshop through Telephone Conference. To listen to the Workshop, please call the following number:**

(844) 855-4444

Meeting Access Code: 346338#

If you have any questions and/or need more information, please contact the City at (763) 575-7422. Thank you.* *

The City of Montrose is committed to maintaining a safe, welcoming, family-friendly community, with affordable housing, where parents can raise their families; to ensuring our skilled, motivated employees provide high quality public services at a value; to sound stewardship and fiscal responsibility to ensure our city remains strong and prosperous, both now and into the future; to nurturing business-friendly partnerships to promote economic development and local jobs; to thoughtfully address community needs and plan for growth, innovation and sustainable development; and to ethical leadership that is responsive and accountable to our citizens.

Montrose Community Center
200 Center Avenue South
Montrose, Minnesota 55363

1. CALL TO ORDER

2. ROLL CALL

3. BUSINESS

A. Presentation of Year 2019 Audit

4. ADJOURNMENT

Management Communication

City of Montrose

Montrose, Minnesota

For the Year Ended
December 31, 2019

People
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Going
Beyond the
Numbers

March 31, 2020

Management, Honorable Mayor and City Council
City of Montrose, Minnesota

We have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Montrose, Minnesota (the City), for the year ended December 31, 2019 and have issued our report thereon dated March 31, 2020. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter dated October 15, 2019. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under Auditing Standards Generally Accepted in the United States of America and *Government Auditing Standards*

As stated in our engagement letter, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your responsibilities.

Our responsibility is to plan and perform the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement. As part of our audit, we considered the internal control over financial reporting of the City. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control. We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters.

Significant Audit Findings

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We identified certain deficiencies in internal control, described on the following pages as items 2019-001 and 2019-002 that we consider to be significant deficiencies.

2019-001

Preparation of Financial Statements

- Condition:* As in prior years, we were requested to draft the audited financial statements and related footnote disclosures as part of our regular audit services. Ultimately, it is management's responsibility to provide for the preparation of your statements and footnotes, and the responsibility of the auditor to determine the fairness of presentation of those statements. From a practical standpoint we do both for you at the same time in connection with our audit. This is not unusual for us to do with organizations of your size. It is our responsibility to inform you that this deficiency could result in a material misstatement to the financial statements that could have been prevented or detected by your management. Essentially, the auditors cannot be part of your internal control process.
- Criteria:* Internal controls should be in place to provide reasonable assurance over financial reporting.
- Cause:* From a practical standpoint we do both for you at the same time in connection with our audit. This is not unusual for us to do with organization of your size.
- Effect:* The effectiveness of the internal control system relies on enforcement by management. The effect of deficiencies in internal controls can result in undetected errors in financial reporting.
- Recommendation:* It is your responsibility to make the ultimate decision to accept this degree of risk associated with this condition because of cost or other considerations. As in prior years, we have instructed management to review a draft of the auditor prepared financials in detail for their accuracy; we have answered any questions they might have, and have encouraged research of any accounting guidance in connection with the adequacy and appropriateness of classification of disclosure in your statements. We are satisfied that the appropriate steps have been taken to provide you with the completed financial statements. While the City is reviewing the financial statements we recommend the City agree its financial software to the numbers reported in the financial statements.

Management Response:

For now, the City's management accepts the degree of risk associated with this deficiency and thoroughly reviews a draft of the financial statements.

2019-002

Limited Segregation of Duties

- Condition:* During our audit, we reviewed procedures over cash disbursements, receipts, and utility billing and found the City to have limited segregation of duties related to these transaction cycles.
- Criteria:* There are four general categories of duties: authorization, custody, record keeping and reconciliation. In an ideal system, different employees perform each of these four major functions. In other words, no one person has control of two or more of these responsibilities.
- Cause:* The City had a limited number of staff for a portion of the year to properly segregate duties in these transaction cycles. The Deputy Clerk performed two or more of the general categories of duties in each of the transaction cycles identified.
- Effect:* The existence of this limited segregation of duties increases the risk of fraud.
- Recommendation:* We recommend the City review and analyze its internal controls as staffing has changed, and implement changes and compensating controls considered necessary.

Management Response:

Management recognizes that with the change in staffing that this was a deficiency since 2015, and is relying on continued oversight by management and the City Council to monitor this deficiency. This has been addressed by hiring a city clerk/treasurer who will perform some of the duties.

Compliance

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination of the City's compliance with those requirements. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* or statutes set forth by the State of Minnesota.

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the City are described in Note 1 to the financial statements. One new accounting policy related to Fiduciary Activities was adopted and the application of existing policies were changed during the year ended December 31, 2019. We noted no transactions entered into by the City during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were capital asset basis, depreciation, and compensated absences, allocation of payroll, and the liability for the City's pensions.

- Management's estimate of depreciation is based on estimated useful lives of the assets. Depreciation is calculated using the straight-line method.
- Allocations of gross wages and payroll benefits are approved by the City Council within the City's budget and are derived from each employee's estimated time to be spent servicing the respective function of the City. These allocations are also used in allocating accrued compensated absences payable.
- Management's estimate of its pension liability is based on several factors including, but not limited to, anticipated investment return rate, retirement age for active employees, life expectancy, salary increases and form of annuity payment upon retirement.
 - The allocation of the pension liability related to Minnesota Public Employee Retirement Association (PERA) is based on the City's proportionate share of employer contributions to the PERA cost-sharing multiple employer Coordinated pension plan.

We evaluated the key factors and assumptions used to develop these accounting estimates in determining that it is reasonable in relation to the financial statements taken as a whole.

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

We assisted in preparing a number of year end accounting entries. These were necessary to adjust the City's records at year end to correct ending balances. The City should establish more detailed processes and procedures to reduce the total number of entries in each category. The City will receive better and timelier information if the preparation of year end entries is completed internally.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated March 31, 2020.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the City's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

We applied certain limited procedures to the required supplementary information (RSI) (Management's Discussion and Analysis, the Schedule of Employer's Share of the Net Pension Liability, the Schedule of Changes in Net Pension Liability (Asset) and Related Ratios, and the Schedules of Employer's Contributions) which is information that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on the supplementary information (combining and individual fund financial statements and schedules), which accompany the financial statements but are not RSI. With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

We were not engaged to report on the introductory section which accompanies the financial statements but is not RSI. We did not audit or perform other procedures on this other information and we do not express an opinion or provide any assurance on it.

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Future Accounting Standard Changes

The following Governmental Accounting Standards Board (GASB) Statements have been issued and may have an impact on future City financial statements: ⁽¹⁾

GASB Statement No. 87 - Leases

Summary

The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities.

Effective Date and Transition

The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged.

Leases should be recognized and measured using the facts and circumstances that exist at the beginning of the period of implementation (or, if applied to earlier periods, the beginning of the earliest period restated). However, lessors should not restate the assets underlying their existing sales-type or direct financing leases. Any residual assets for those leases become the carrying values of the underlying assets.

How the Changes in This Statement Will Improve Accounting and Financial Reporting

This Statement will increase the usefulness of governments' financial statements by requiring reporting of certain lease liabilities that currently are not reported. It will enhance comparability of financial statements among governments by requiring lessees and lessors to report leases under a single model. This Statement also will enhance the decision-usefulness of the information provided to financial statement users by requiring notes to financial statements related to the timing, significance, and purpose of a government's leasing arrangements.

GASB Statement No. 89 - Accounting for Interest Cost Incurred before the End of a Construction Period

Summary

The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period.

This Statement establishes accounting requirements for interest cost incurred before the end of a construction period. Such interest cost includes all interest that previously was accounted for in accordance with the requirements of paragraphs 5–22 of Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements, which are superseded by this Statement. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund.

This Statement also reiterates that in financial statements prepared using the current financial resources measurement focus, interest cost incurred before the end of a construction period should be recognized as an expenditure on a basis consistent with governmental fund accounting principles.

Future Accounting Standard Changes (Continued)

Effective Date and Transition

The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged. The requirements of this Statement should be applied prospectively.

How the Changes in This Statement Will Improve Accounting and Financial Reporting

The requirements of this Statement will improve financial reporting by providing users of financial statements with more relevant information about capital assets and the cost of borrowing for a reporting period. The resulting information also will enhance the comparability of information about capital assets and the cost of borrowing for a reporting period for both governmental activities and business-type activities.

GASB Statement No. 91 - *Conduit Debt Obligations*

Summary

The primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures.

All conduit debt obligations involve the issuer making a limited commitment. Some issuers extend additional commitments or voluntary commitments to support debt service in the event the third party is, or will be, unable to do so.

An issuer should not recognize a conduit debt obligation as a liability. However, an issuer should recognize a liability associated with an additional commitment or a voluntary commitment to support debt service if certain recognition criteria are met. As long as a conduit debt obligation is outstanding, an issuer that has made an additional commitment should evaluate at least annually whether those criteria are met. An issuer that has made only a limited commitment should evaluate whether those criteria are met when an event occurs that causes the issuer to reevaluate its willingness or ability to support the obligor's debt service through a voluntary commitment.

This Statement also addresses arrangements - often characterized as leases - that are associated with conduit debt obligations. In those arrangements, capital assets are constructed or acquired with the proceeds of a conduit debt obligation and used by third-party obligors in the course of their activities. Payments from third-party obligors are intended to cover and coincide with debt service payments. During those arrangements, issuers retain the titles to the capital assets. Those titles may or may not pass to the obligors at the end of the arrangements.

This Statement requires issuers to disclose general information about their conduit debt obligations, organized by type of commitment, including the aggregate outstanding principal amount of the issuers' conduit debt obligations and a description of each type of commitment. Issuers that recognize liabilities related to supporting the debt service of conduit debt obligations also should disclose information about the amount recognized and how the liabilities changed during the reporting period.

Effective Date and Transition

The requirements of this Statement are effective for reporting periods beginning after December 15, 2020. Earlier application is encouraged.

Future Accounting Standard Changes (Continued)

How the Changes in This Statement Will Improve Accounting and Financial Reporting

The requirements of this Statement will improve financial reporting by eliminating the existing option for issuers to report conduit debt obligations as their own liabilities, thereby ending significant diversity in practice. The clarified definition will resolve stakeholders' uncertainty as to whether a given financing is, in fact, a conduit debt obligation. Requiring issuers to recognize liabilities associated with additional commitments extended by issuers and to recognize assets and deferred inflows of resources related to certain arrangements associated with conduit debt obligations also will eliminate diversity, thereby improving comparability in reporting by issuers. Revised disclosure requirements will provide financial statement users with better information regarding the commitments issuers extend and the likelihood that they will fulfill those commitments. That information will inform users of the potential impact of such commitments on the financial resources of issuers and help users assess issuers' roles in conduit debt obligations.

⁽¹⁾ *Note.* From GASB Pronouncements Summaries. Copyright 2019 by the Financial Accounting Foundation, 401 Merritt 7, Norwalk, CT 06856, USA, and is reproduced with permission.

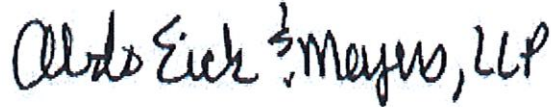
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Restriction on Use

This communication is intended solely for the information and use of the members of the City Council, management, others within the City and Minnesota Office of the State Auditor and is not intended to be and should not be used by anyone other than those specified parties.

The comments and recommendation in this report are purely constructive in nature, and should be read in this context. Our audit would not necessarily disclose all weaknesses in the system because it was based on selected tests of the accounting records and related data.

If you have any questions or wish to discuss any of the items contained in this letter, please feel free to contact us at your convenience. We wish to thank you for the continued opportunity to be of service, and for the courtesy and cooperation extended to us by your staff.



ABDO, EICK & MEYERS, LLP
 Minneapolis, Minnesota
 March 31, 2020



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City of Montrose
2019 Financial
Statement Audit

Introduction



Audit Opinion and Responsibility

General Fund Results

Other Governmental Funds

Enterprise Funds

Ratios

Audit Results



Auditor's
Opinion

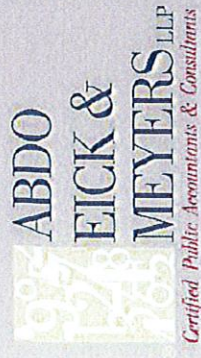


Minnesota Legal
Compliance



Audit Results

2019 Audit Findings



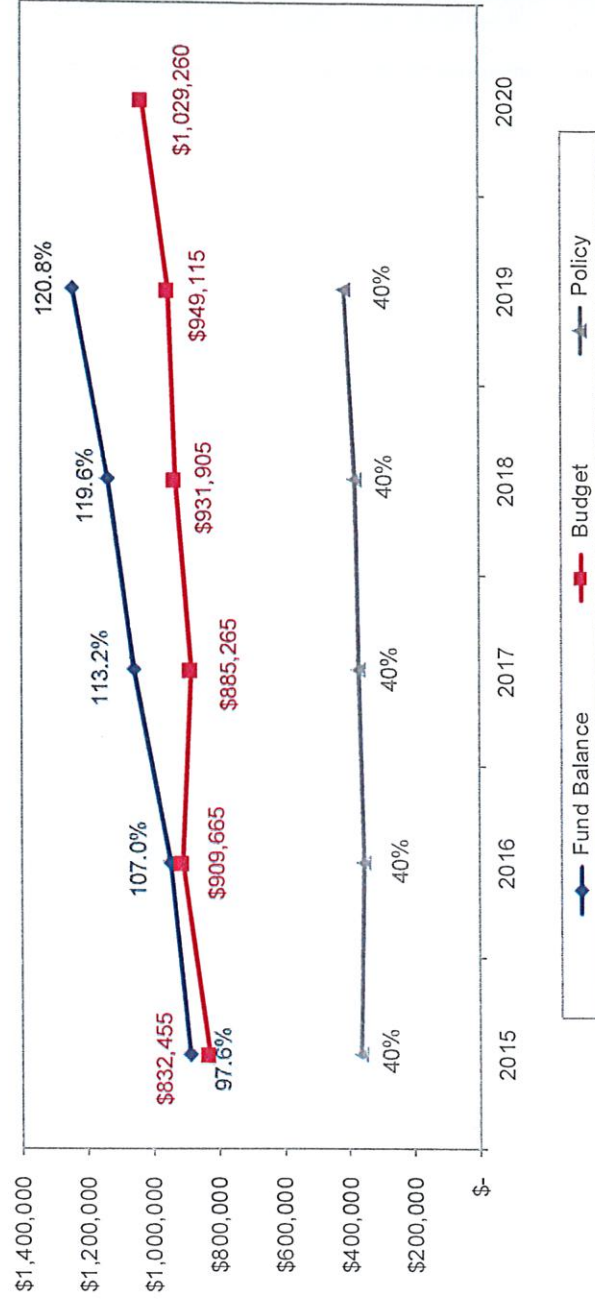
Preparation of Financial Statements

- Internal Control Finding

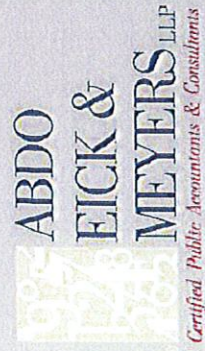
Limited Segregation of Duties

- Internal Control Finding

General Fund - Fund Balances

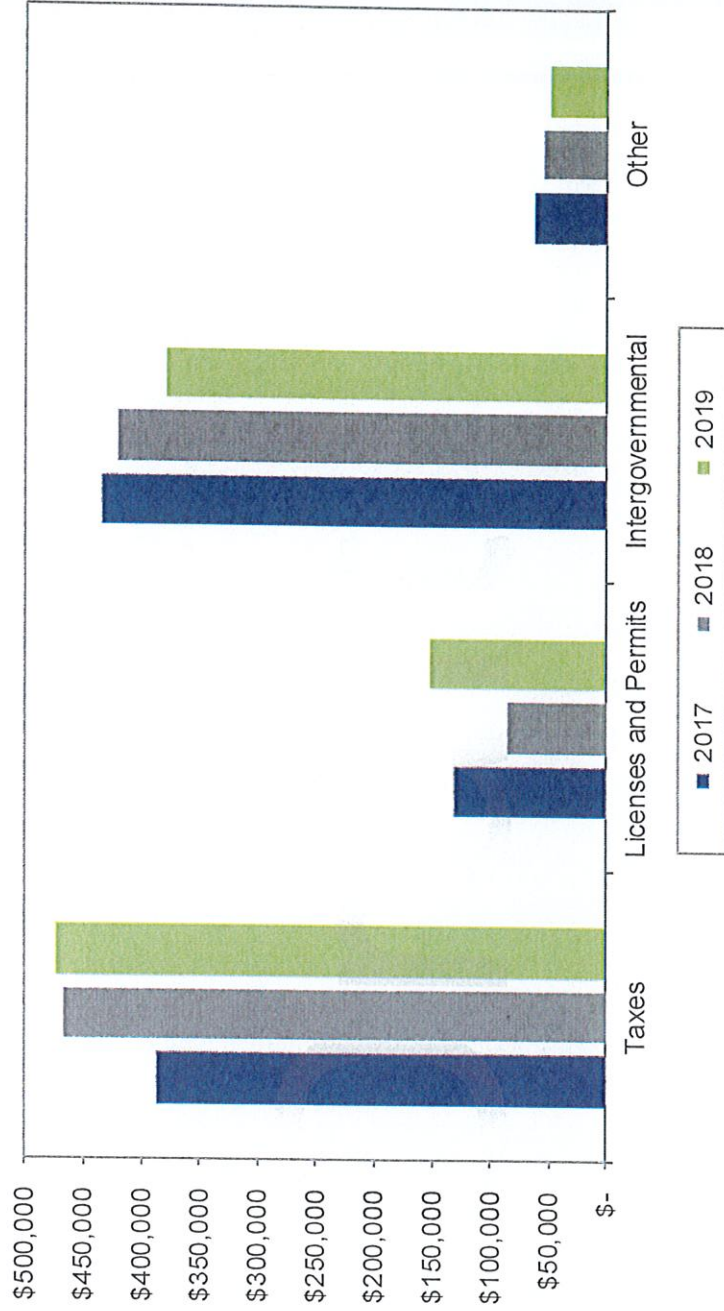


General Fund Budget to Actual

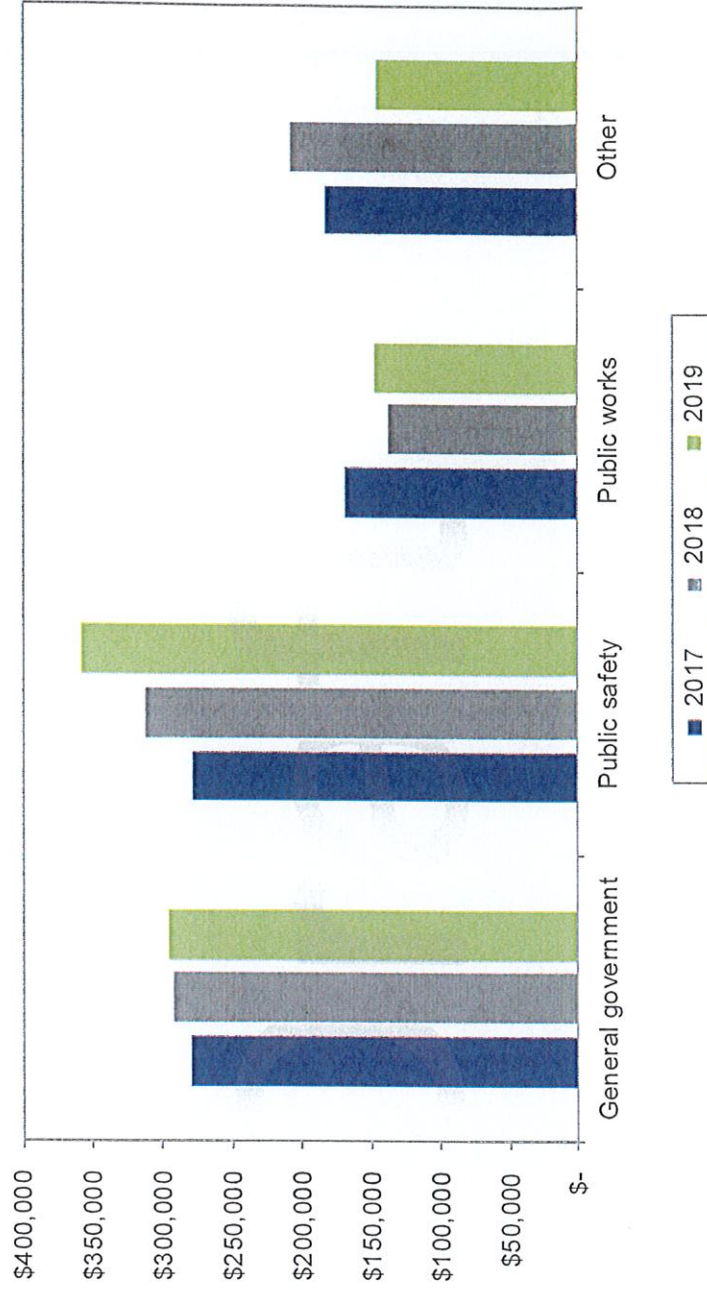


	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues	\$ 941,415	\$ 948,690	\$ 1,053,602	\$ 104,912
Expenditures	949,115	1,038,784	947,937	90,847
Excess of Revenues Over Expenditures	(7,700)	(90,094)	105,665	195,759
Other Financing Sources				
Transfers in	7,700	2,500	2,500	-
Net Change in Fund Balances	-	(87,594)	108,165	195,759
Fund Balances, January 1	1,135,326	1,135,326	1,135,326	-
Fund Balances, December 31	\$ 1,135,326	\$ 1,047,732	\$ 1,243,491	\$ 195,759

General Fund Revenues by Type and Source



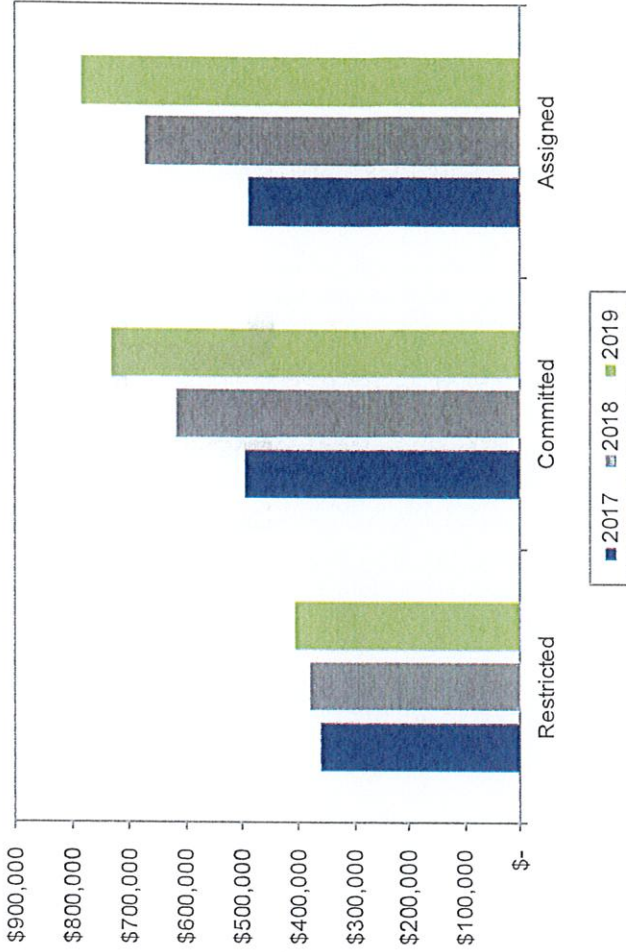
General Fund Expenditures by Type and Program



Special Revenue Fund Balances

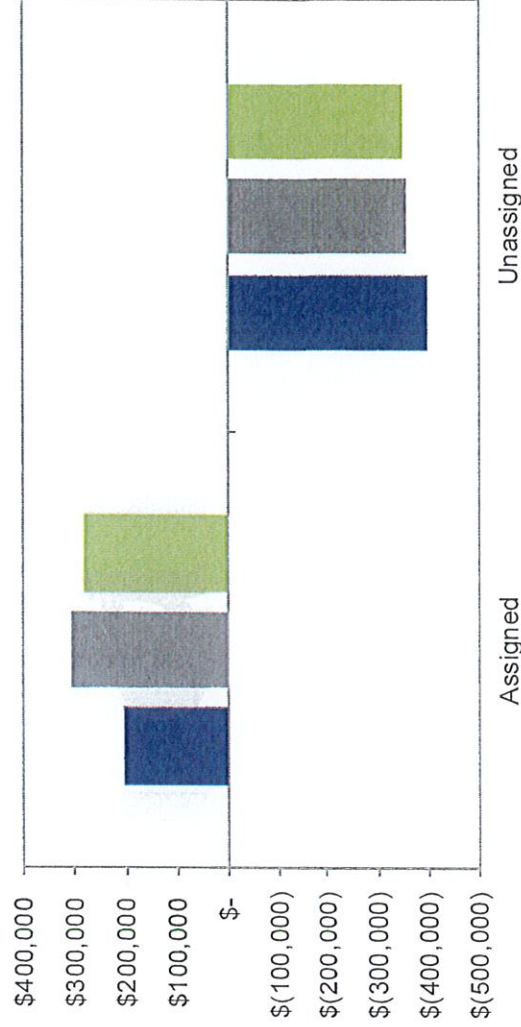
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Fund	Fund Balances December 31,		Increase (Decrease)
	2019	2018	
Major			
Fire Special	\$ 1,183,537	\$ 994,425	\$ 189,112
Nonmajor			
Small Cities	8,820	8,741	79
Park and Recreation	257,537	222,411	35,126
Economic Development Authority	396,817	371,234	25,583
Community Center	74,864	72,382	2,482
Total	\$ 1,921,575	\$ 1,669,193	\$ 252,382

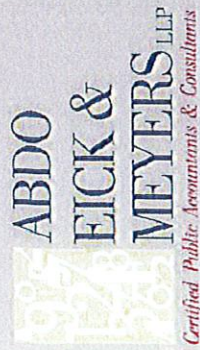


Capital Projects Fund Balances

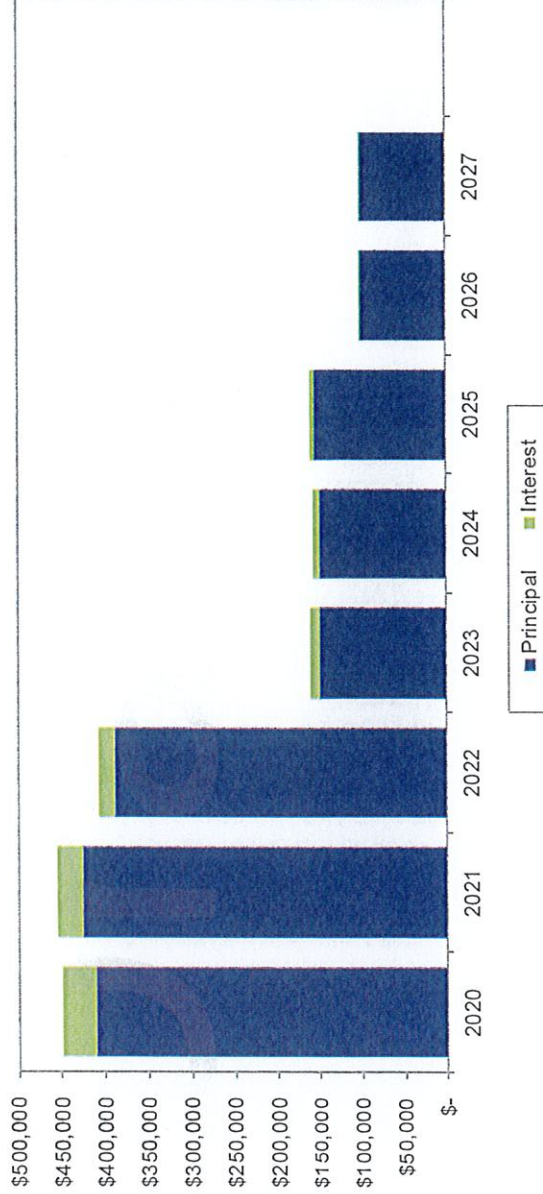
Fund	Fund Balances December 31,		
	2019	2018	Increase (Decrease)
Major			
Hwy 25 Improvements	\$ (76,817)	\$ (91,714)	\$ 14,897
Nonmajor			
General Capital Projects	280,719	336,052	(55,333)
A.U.A.R	(266,671)	(266,671)	-
Emerson Avenue	(6,619)	-	(6,619)
Total	<u>\$ (69,388)</u>	<u>\$ (22,333)</u>	<u>\$ (47,055)</u>



Debt Service Funds

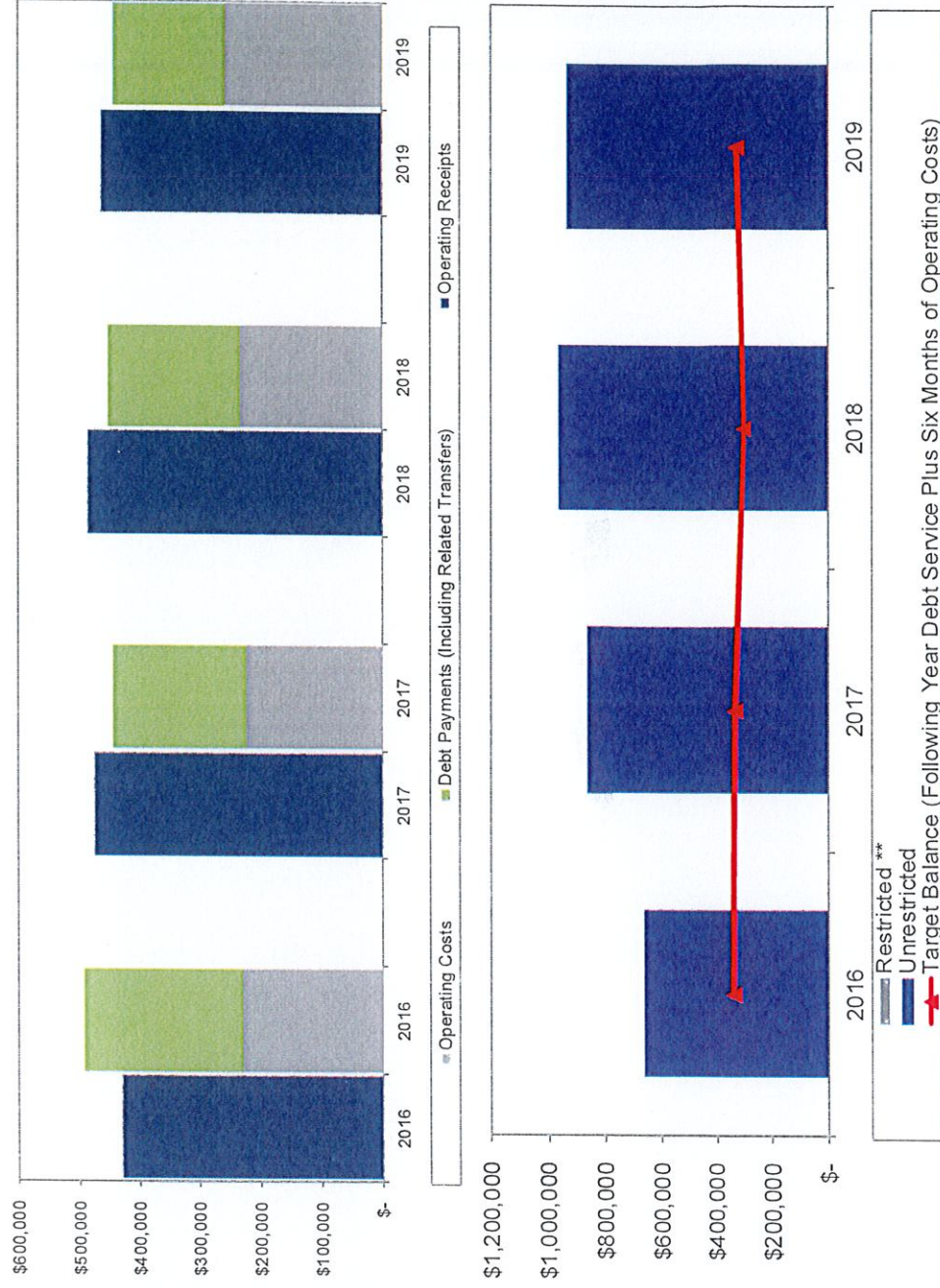


Debt Description	December 31, 2019				Final Maturity Date
	Cash and Temporary Investments	Total Assets	Bonds Outstanding Source of Payment	City	
CSAH 12 Wells/Lift	\$ 1,112	\$ 1,112	\$	600,000	2022
Buffalo Avenue	367,746	367,865		195,000	2021
Clementa Avenue	427,008	427,008		765,000	2027
Montrose Meadows	33,419	33,419		320,000	2025
Capital Lease	-	-		173,021	2026
Total	\$ 829,285	\$ 829,404	\$	2,053,021	
Total Remaining Interest Payments			\$	120,778	



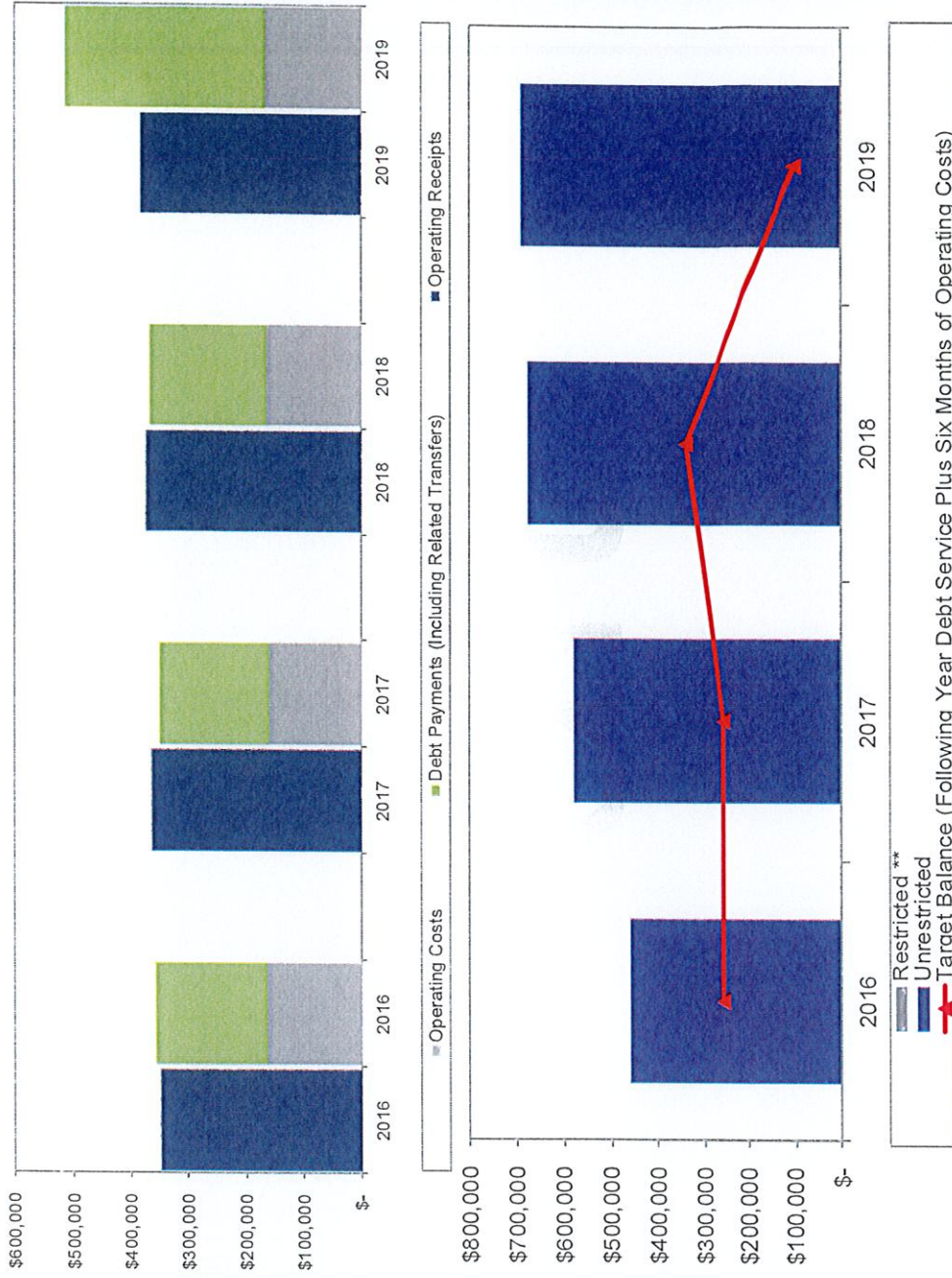
Water Fund - Cash Flows from Operations and Cash Balances

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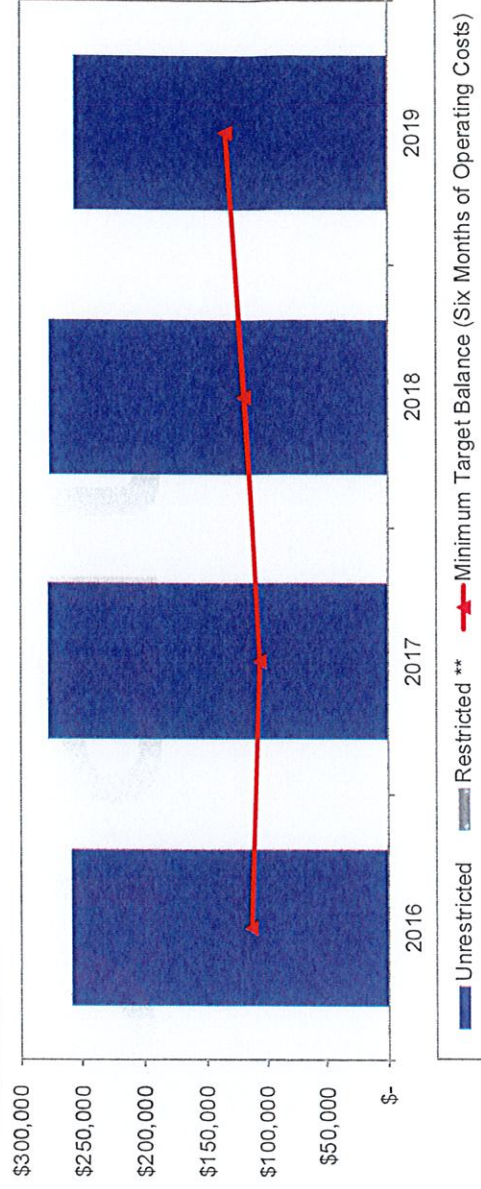
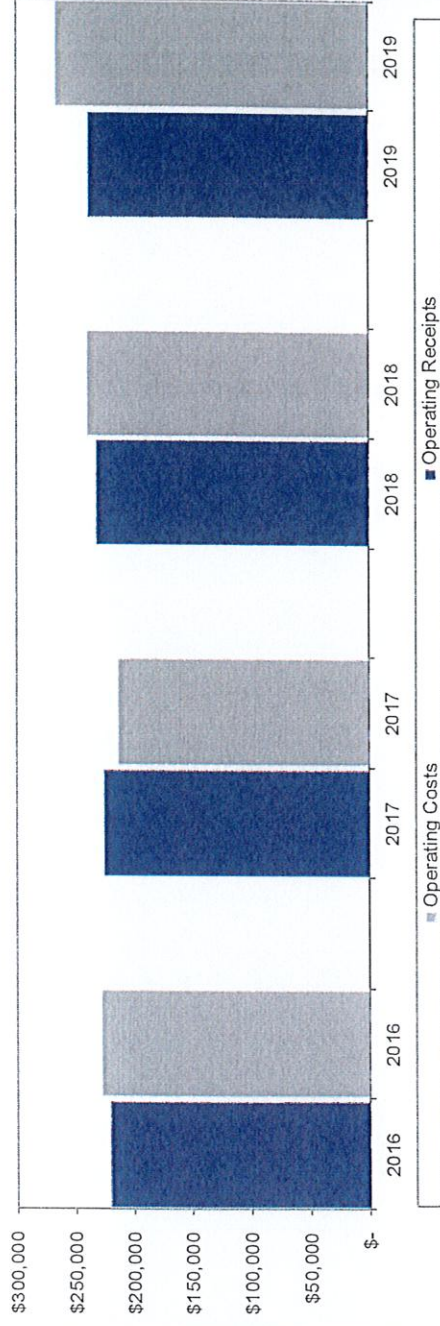


Sewer Fund - Cash Flows from Operations and Cash Balances

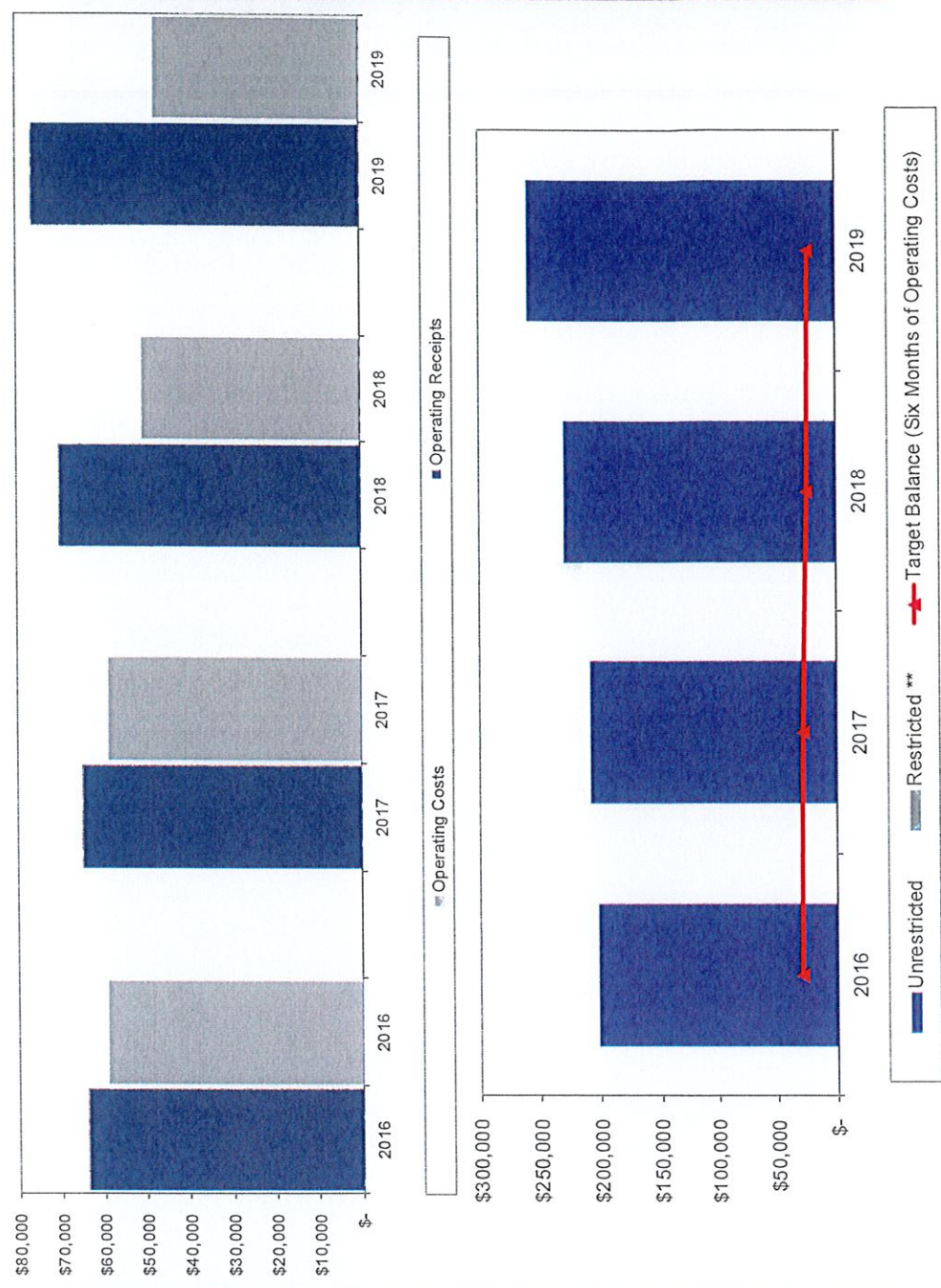
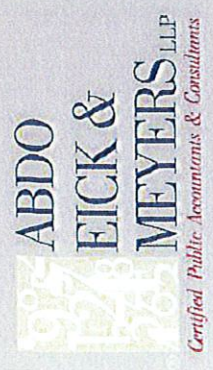
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Refuse Fund - Cash Flows from Operations and Cash Balances

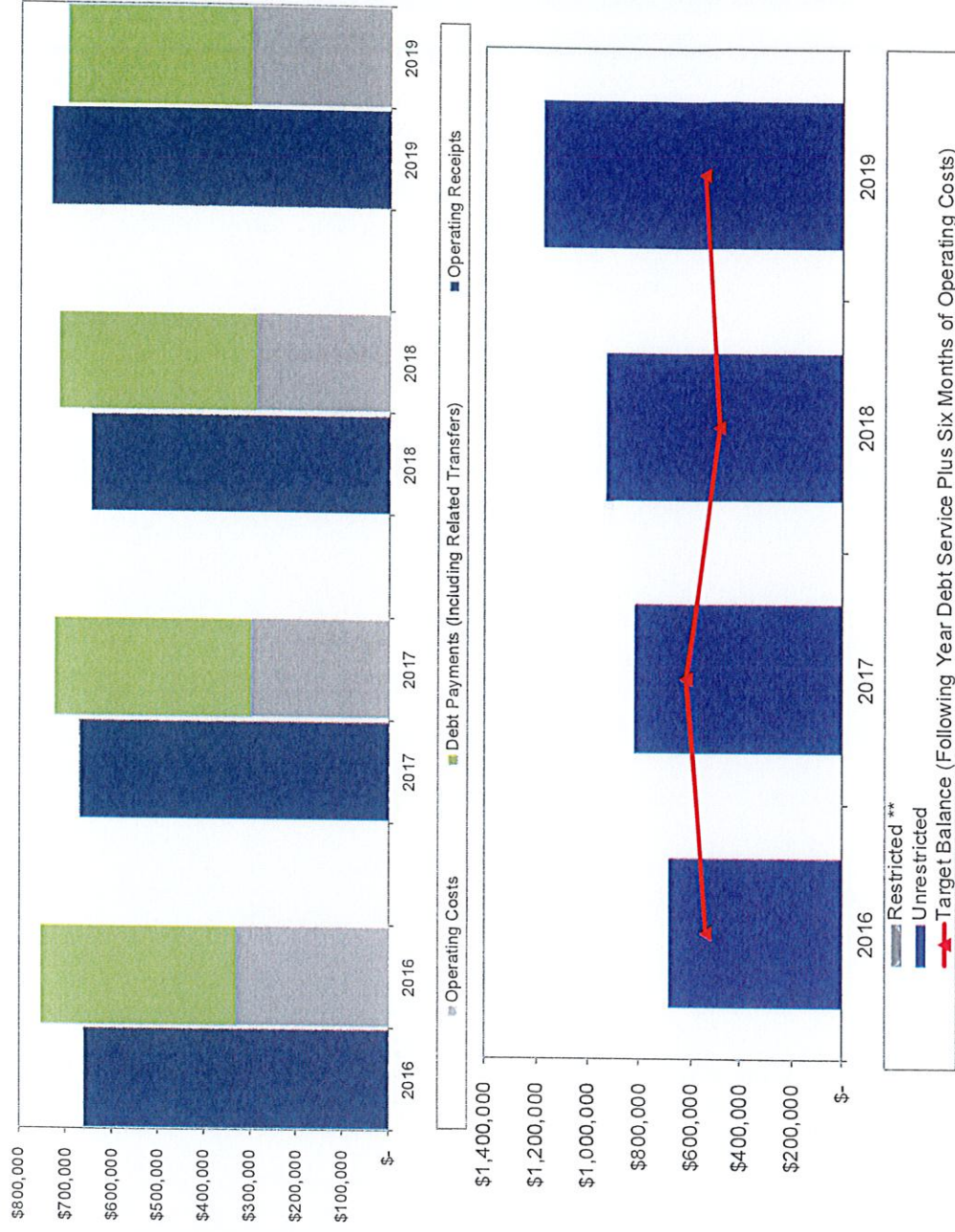


Storm Water Fund - Cash Flows from Operations and Cash Balances

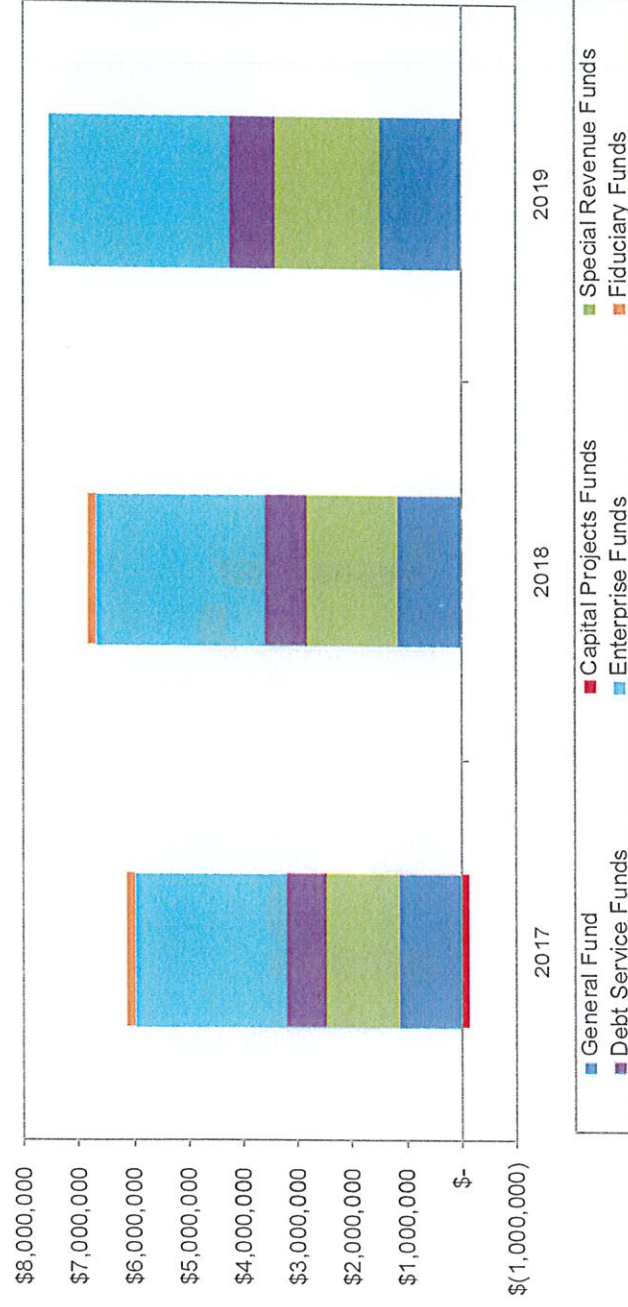


Wastewater Fund - Cash Flows from Operations and Cash Balances

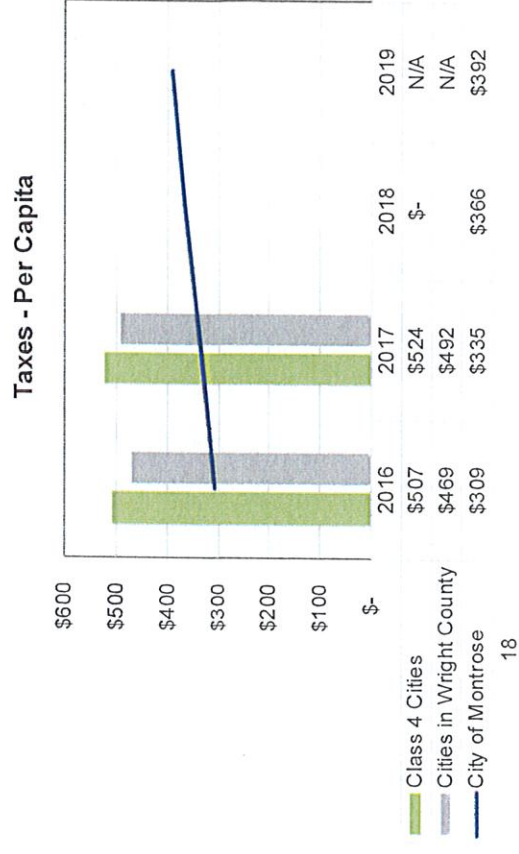
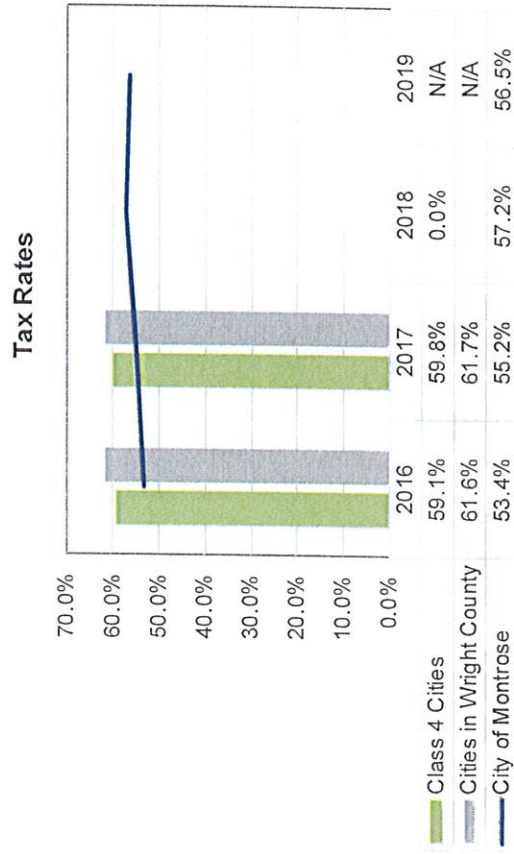
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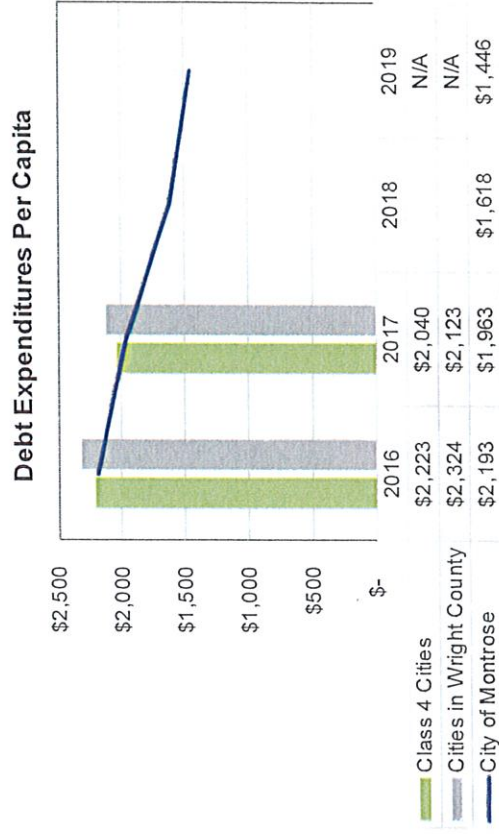
Cash and Investments by Balances by Fund Type



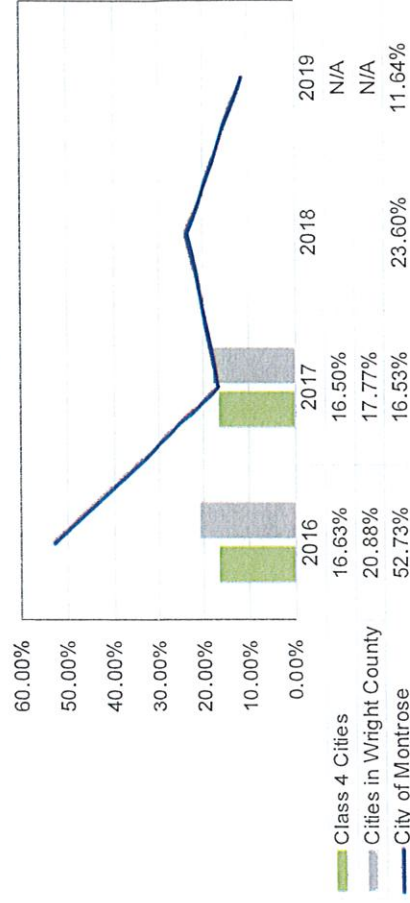
Key City Ratios



Key City Ratios

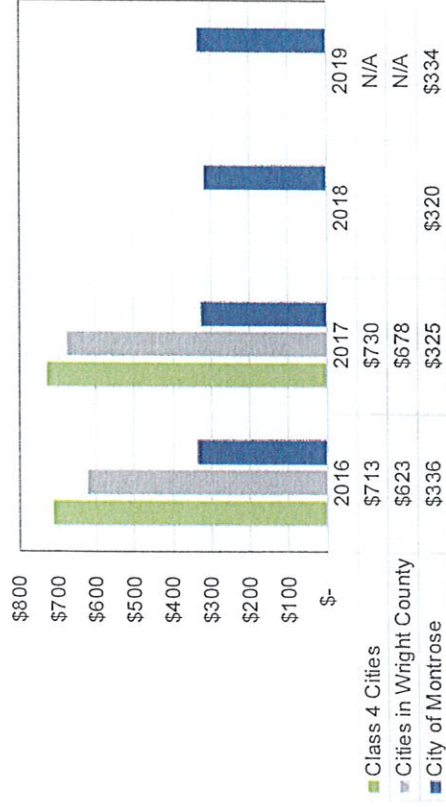


Debt Service Expenditures as a Percent of Total Expenditures

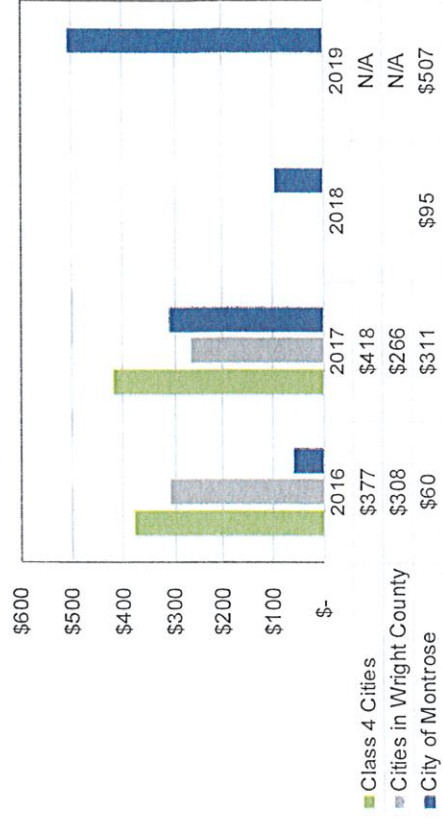


Key City Ratios

Current Expenditures Per Capita

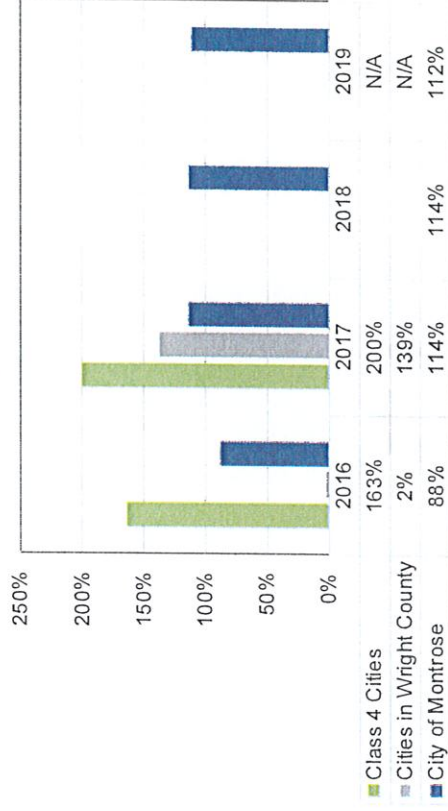


Capital Expenditures Per Capita

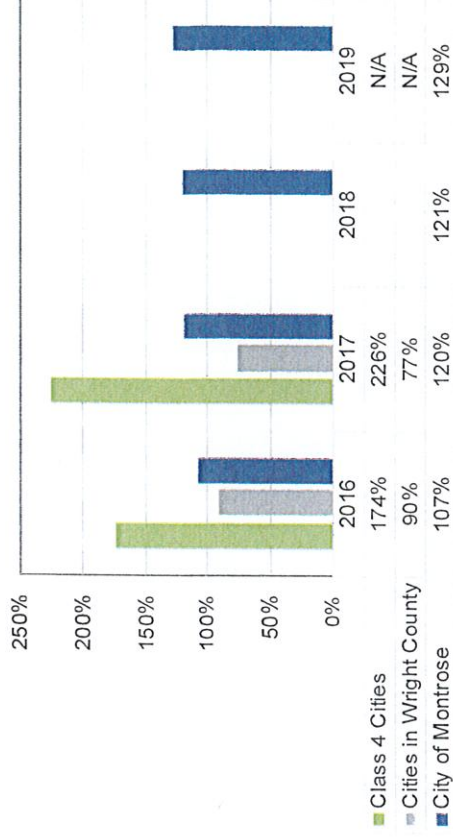


Key City Ratios

Water Fund Debt Service Coverage



Sewer Fund Debt Service Coverage



Questions?

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